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VOL. CLIII NO. 182 Monday, September 19, 1988 Year

Today

NEWS MONDAY

Insider abuse is becoming less of a factor in bank fraud. Officers and employees of financial institutions took part in 62% of fraud cases investigated by the FBI last year, down from 72% in 1986 and 81% in 1985, writes Bart Fraust in Perspective. 5

The final rules on risk-based capital will be in bankers' hands by yearend with luck. Some of the largest U.S. banks will have to scramble to meet the new guidelines by raising equity and shrinking assets, while many smaller institutions are going to find themselves overcapitalized. 6

The Week Ahead includes a meeting of the Federal Open Market Committee. 6

Mark J. Riedy, the new president of the National Council of Savings Institutions, held his media coming-out party. 6

INSIDE

Participants in the IMF-World Bank conference will have to come to grips with the concept of "debt fatigue." Determining the kind of relief that can or should be given heavily indebted countries is likely to be the dominant theme in West Berlin this week. 2

Henry C. Wallich, the former Federal Reserve Board governor who died last Thursday, left behind a wide range of admirers. He was especially noted for his expertise in international economics along with his personal wit and intensity. 2

The banking industry's hopes for new securities powers were dealt a blow as House Energy and Commerce Committee Chairman John D. Dingell asked his panel to support a bill that does not permit underwriting of corporate debt or mutual funds. A few members were said to be pressing for additional powers, but Rep. Dingell and Rep. Edward J. Markey are expected to hold firm against corporate debt and mutual funds. 3

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COMMENT

The sale of mortgages offers tremendous advantage to the public as well as participating financial institutions, writes Dr. Paul S. Nadler. Among the benefits is increased availability in small markets and downward pressure on prices. 4

Signs of economic slowdown, rising interest rates, and restraint by the Federal Reserve Board may be misleading in light of rising personal consumption, business investment, and exports, says H. Erich Heinemann. 4

To Our Texas Readers:

The chartered airplane delivering the *American Banker* to Dallas skidded off the runway during takeoff last week, delaying delivery of the Sept. 16 issue of the newspaper until today. (There were no injuries.) We regret any inconvenience late delivery may have caused.

UNRESERVED OPINION /COMMENTARY

The Dangers of Misreading Fed Signals

By BEN WEBERMAN

THE bullish euphoria that has blanketed fixed-income markets since early September may soon come to an end. Interest rates have been falling for weeks on the assumption that monetary restraint is cooling economic activity. Don't believe it.

The Federal Reserve Board's Open Market Committee, meeting this week, will use its powers to keep growth steady and noninflationary. The central bankers will use seasonal bank reserve fluctuations to create conditions that help stabilize public opinion about prospects for the economy and for interest rates.

The goal will be to prevent market exuberance — with concomitant lower interest costs — from touching off renewal of capital expansion or heightened consumer demands.

The central bank's objective: Keep the expansion alive, but without greater inflationary pressures.

Before the Open Market Committee meeting, bank reserve targets have called for net daily borrowings in a $600 million to $650 million range. This is consistent with federal funds trading close to 8⅛%.

Following the meeting, the directive to the manager of the open market trading desk will remain unchanged. It will call for conditions that hold the federal funds rate close to the 8⅛% level that has prevailed since mid-August.

Pitfalls for the Unwary

Market prospects are apparently clear-cut for the period immediately ahead. But there may be interest rate traps for the unwary.

Plans based on misconceptions could be costly. The traps will be baited by misinterpreted economic data and Fed reserve operations. At the outset, it is important to realize that business has not slackened.

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FSLIC Near Ceiling On Notes: GAO Aide

By JIM McTAGUE
Washington Bureau

WASHINGTON — The Federal Savings and Loan Insurance Corp. could exhaust the lion's share of its resources for eliminating troubled thrifts by the end of next week, based on a government estimate.

Frederick D. Wolf, director of the accounting and financial management division of the General Accounting Office, told the *American Banker* last week that it is possible the FSLIC could have notes totaling $16 billion outstanding by Sept. 30. He based the projection on the current pace of FSLIC case resolutions.

In a telephone interview Friday, Federal Home Loan Bank Board member Roger Martin said he had "no problems with Mr. Wolf's numbers."

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WASHINGTON BRIEFING

Industry Seeks Unity on Bank Bill

By ROBERT M. GARSSON

With the moment of truth fast approaching for bank deregulation legislation, the industry is scrambling to define and deliver a coherent message to Capitol Hill.

Is the industry for or against a bill? Officially, the major bank trade groups say they want the process to continue, though most acknowledge that the emerging legislation is looking steadily less acceptable.

The American Bankers Association vehemently opposes the bill approved by the House Banking Committee, though it still holds out the hope of seeing a measure similar to the one passed by the Senate enacted into law.

The message that has been picked up on Capitol Hill, according to staffers and bank lobbyists, is that the industry — represented by the ABA — wants the legislative process to stop, and the sooner the better.

Within the portion of the industry that hopes to see legislation this year, that message has touched a raw nerve. One result was the formation of a coalition of about 30 banks — inevitably dubbed "the gang of 30" — to serve as a counterweight to the ABA.

Bank industry lobbyists say the issue exploded to life at a meeting two weeks ago of the Legislative Liaison Advisory Committee (known by its acronym LLAC, pronounced "Lilac").

"A lot of people from midwestern

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WASHINGTON MONDAY

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BANKING TRENDS/COMMENTARY

Rooting Out the Problems in Mortgage Servicing

By DR. PAUL S. NADLER

I could not help but think of the old adage, "The government never comes in until the private sector fails, but once it is in it never leaves," as I looked at two stories on mortgage servicing in the newspapers this month.

The first was a report that some people have been losing their homes or at least been subject to heavy penalties by local governments. The culprit is a bank or mortgage company that holds the owner's real estate taxes in escrow but has failed to make payment — or failed to make payment on time.

The second was an article by John LaFalce, D-N.Y., in *The New York Times* complaining about certain practices in the origination and sale of mortgages. He reports that some banks and thrifts have sold mortgages to companies that have altered the terms and made it difficult or impossible to get relief on complaints. The result is late payments of insurance and taxes.

Nadler Says:

'By being able to sell mortgages, the local institution will be more aggressive in pricing these loans.'

In sum, Mr. LaFalce believes people often pick a mortgage lender because they know the institution and are willing to sacrifice best rate for service. Then the mortgage is sold, and the customer is left with neither the service nor the rate.

The obvious conclusion from both stories is that we need new legislation to make sure the mortgage borrower is protected.

What is so bothersome to outside observers of the banking scene is that the origination and sale of mortgages offers tremendous advantage to the public as well as participating financial institutions. So if the practice is outlawed or severely restricted, the public probably will suffer more than the few protected people will gain.

But, as is often the case, legislation is proposed to handle the exceptions, and the general loss to the public caused by the restraints goes unpublicized.

Look at the good that the sale of mortgages provides our nation and its communities.

First, consider the local institutions that want to serve their communities with mortgage loans but lack the funds or capital. By originating and selling loans, the bank or thrift is able to serve the community and still get its money back to serve other people.

Institutions do not need to halt mortgage lending after a certain number of loans have been made. There is no limit to the number that can be originated, just as long as the loans made are of the caliber that can be securitized and sold in the national money capital markets. This certainly benefits the local community.

Think also of the benefits of the securitization process — to both borrowers and lenders.

By being able to sell mortgages, the local institution will be more aggressive in pricing these loans than if it had only a limited amount of money to ration out.

And if the local institution is not offering competitive rates, other institutions will come in to make the loans either directly or through mortgage companies.

Anyone who ever tried to get a mortgage from the only institution in town making home liens would appreciate the competition that the origination and sale process makes possible and the subsequent downward pressure on mortgage rates.

On the other side, think of the saver who formerly had little choice but to place funds in his local bank or thrift no matter the return offered.

The aggressive selling of Fannie Maes, Ginnie Maes, and other mortgage-backed instruments to the public brings new competition for savings. The result is that local banks and thrifts

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Dr. Nadler is a professor of finance at Rutgers University's Graduate School of Management and is contributing editor of the *American Banker*.

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OVERVIEW/COMMENTARY

The Perils Dr. Pangloss Faced May Resurface in the Economy

By H. ERICH HEINEMANN

THE long, hot summer of 1988 is over. In the Midwest, the drought has broken. Snow is starting to fall in the Rockies. Even the downtrodden denizens of Wall Street are enjoying a brief encounter with truly delightful living.

However, a lot more than the weather has changed. Fear of inflation, which pervaded the financial community only a few weeks ago, has started to fade. A new consensus is forming: The economy will slow, but not stall. Prices will remain relatively stable.

The Federal Reserve will be able to lower interest rates. The economic expansion will continue well into the 1990s — albeit well below the 4.3% growth rate that has been typical since the end of the recession in 1982.

Whatever a slow-growth economy may portend for the average working person, in the way of higher unemployment or lower wages, the prospect is positively panglossian to the financial community. According to Barton Biggs, who calls the tune for investment strategy at Morgan Stanley, "the signs of the slowdown in the U.S. economy were welcome. . . . A worldwide boom plagues investors because it means a bust follows."

As a result, values of stocks, bonds, and the U.S. dollar have rebounded smartly from their summertime lows — the latter two quite substantially. More and more, analysts appear convinced that Federal Reserve Chairman Alan Greenspan will keep interest rates stable — not only through the election, but in 1989 as well.

Voltaire May Have Been Right

Maybe Dr. Pangloss, the character in Voltaire's great farce, "Candide," was right when he said that "All is for the best in this best of all possible worlds." Perhaps.

But just to be safe, don't bet the family farm quite yet. The gurus of groupthink who inhabit Lower Manhattan — and the news publications that cater to their manic-depressive style of thinking — like nothing better than to find a new long-term trend in each government statistic. In the real, workaday world of Detroit, Dayton, or Duluth, things don't change so quickly.

True, a number of important business indicators — employment, retail sales, and industrial production among others — suggest that the pace of activity slowed during August. But careful analysis indicates that this pause is likely to be temporary.

Over the next six to nine months, total spending should be quite strong. By late 1989, however, business is likely to slow. Recession in 1990 is a distinct

Please see OVERVIEW: Page 10 ▸

Mr. Heinemann is chief economist of Ladenburg, Thalmann & Co., a New York investment banking firm.

MEMORY BANK

The following quiz is based on material that appeared in last week's issues of the American Banker. Answers are on page 10.

1. Seasoned felon Joseph E. Lucas, veteran of 20 years in prison, had been down on his luck. Mr. Lucas, 58, recently tried to rob three banks in Chicago without success — he couldn't even get arrested. His luck changed last week at the downtown St. Louis branch of Mercantile Bank, where he handed a note to a teller demanding $10,000. What unusual aspect of Mr. Lucas's behavior, after passing the note, made it certain that his luck would change?

2. Organized in 1973, the National Association of Urban Bankers represents about 1,600 individuals employed in the U.S. financial services industry. What is the common link among these members, and what overall corporate strategy does the association want senior management in the banking industry to define?

3. The third annual survey sponsored by the American Association of Equipment Lessors, Washington, shows that U.S. banks are willing to hold long-term new-finance leases, while none of the banks responding to the survey participate in the much more vigorous market for short-term operating leases. According to the association, operating leases for what type of big-ticket corporate assets constitute the fastest-growing segment of the new-equipment-leasing industry?

4. In those dimly remembered Dark Ages when computer memories were merely two-dimensional, capacity was measured in gigabytes, or billions of bytes. With the advent of IBM's Enterprise Systems Architecture/370, the three-dimensional addressable memory space has been expanded a thousandfold and is measurable in kilogigabytes or KGBs. In the constantly evolving language of technology, what whimsical nickname has been derived from this acronym?

5. The Federal Deposit Insurance Corp. reports a growth of $37.5 billion in bank assets during the second quarter. According to the FDIC, the direction this growth has taken reinforces a trend of recent years that is changing the profile of bank loan portfolios and the risks associated with them. Which category of outstandings is now dominant, commercial loans or real estate loans?

6. On the savings and loan side of the financial services industry, the risks and returns of various investments were plotted over five years by Wharton Econometrics. The study was performed by the Alliance for Capital Access, acting on a request from the General Accounting Office. By measuring the level of return an average thrift could have realized through a range of investment vehicles, the study found that consumer credit cards yielded the best return, 4.1%, compared with only 1.8% from adjustable-rate mortgages. What category of investment provided the second-best average return for savings and loans, 2.7%?

— Robert Paul Molay

NEWS MONDAY

AN AMERICAN BANKER WEEKLY FEATURE

This Week's Quote

We're upset and angry that we're having to pay for expenses we have no control over.

U.S. League of Savings Institutions chairman Theo Pitt, reacting to the hefty FSLIC premiums paid by healthy thrifts

Also in the News

Greenspan Backs Reform

Federal Reserve Board Chairman Alan Greenspan told a House Judiciary subcommittee last week that Congress should not attempt to limit mergers between the nation's largest banks and securities firms as part of its effort to overhaul the Glass-Steagall Act. However, Mr. Greenspan added, action on Glass-Steagall is so important that the Fed would rather see legislation enacted, including the restraints, than no bill at all. Mr. Greenspan testified last Wednesday as omnibus banking legislation moved into the House Judiciary Committee's subcommittee on monopolies and commercial law. *(For further information, see the story on page 3 of the Sept. 15 issue.)*

Allied Irish Seeks First Maryland

Allied Irish Banks, Dublin, which two years ago discussed selling its controlling stake in First Maryland Bancorp., has now offered to buy the remainder of the stock of the Baltimore banking company for about $340 million. Allied Irish, Ireland's largest banking organization, said last Monday it would pay $35.25 per share for the 50.3% of First Maryland it does not own. First Maryland responded that a special committee of its board will review the offer. Banking analysts were not surprised by the development, but said they felt the price was a bit lower than expected. *(Sept. 13, page 1.)*

Chase Eyes New Jersey Office

Chase Manhattan Corp.'s board of directors this week will consider a management recommendation that almost a third of Chase's New York City employees be moved to New Jersey, according to an article published in last Wednesday's *Wall Street Journal*. The relocation, involving 5,000 employees, would be the biggest business exodus from the city in recent years. A spokesman for Chase said the company has been looking at sites in New York and in New Jersey, but that no final decision has been reached.

Affinity Checking from Citicorp

Citicorp Savings of Illinois has launched a checking account aimed at fans of the Chicago Bears. It is the first affinity checking account to be offered in the Chicago area or by Citicorp, the thrift's New York holding company. The thrift unveiled the account, aimed at fans of the professional football team, at a press conference last Tuesday. It links Citicorp's Citi-One account and Bears promotions and will be offered through Dec. 3. *(Sept. 14, page 1.)*

Texas Card Unit Gets High Price

The former First RepublicBank Corp. credit card business sold for a higher price than expected. Citicorp said it will pay $782 million for $623 million in credit-card receivables, or a premium of $159 million. A lower purchase price was anticipated because NCNB Texas, which has managed the credit card unit since Aug. 2, was told it could solicit the credit card customers even if it lost in the bidding process. NCNB Texas bid for the business, but its offer was lower than the one by Citibank (Delaware). *(Sept. 13, page 3.)*

Fleet/Norstar CEO Kiernan Dies

Peter D. Kiernan, chairman and chief executive officer of the Fleet/Norstar Financial Group, died last Wednesday from complications following surgery to repair an aneurysm in his aorta. He was 65 years old. J. Terrence Murray, president and chief administrative officer, will succeed Mr. Kiernan, who was scheduled to retire on Dec. 31. Mr. Kiernan was stricken on Aug. 18 while vacationing with his family on Cape Cod. He underwent emergency surgery at Falmouth Hospital in Falmouth, Mass., and was later transferred to the intensive care unit at Massachusetts General Hospital in Boston, where he was being treated when he died. *(Sept. 16, page 13.)*

Perspective/Insider Abuse Down, but Losses Rose in '87, FBI Says

By BART FRAUST

Mixed News in Bank Crime Report

INSIDER abuse is a declining factor in bank fraud. Officers and employees of financial institutions took part in 62% of fraud cases investigated by the Federal Bureau of Investigation last year, according to the agency's recently released report on bank crime.

This was down from 72% in 1986 and 81% in 1985.

The federal government, believing that fraud has been a major contributor to bank and thrift failures, has cracked down on white-collar bank crime in recent years. An interagency task force has been established on bank fraud, drawing members from the Justice Department and bank regulatory agencies.

"I'd like to say that this is the result of the effectiveness of our efforts to beat insider fraud," said Anthony Adamski Jr., chief of the FBI's financial crimes unit. "But it looks like a statistical quirk."

He said the enactment of legislation to combat bank fraud has made it easier to charge outsiders with the crime.

Data for 1985 — when insider abuses peaked — included $500 million in fraud-related losses relating to the 1982 failure of Penn Square Bank in Oklahoma City. This tended to bloat the numbers in 1985.

In addition, many recent cases have involved real estate fraud, and these typically involve large numbers of outsiders.

The decline in the insider factor was about the only good news in the FBI report, though.

Losses due to fraud and embezzlements totaled a record $860.6 million in 1987, up 41.9% from the $606.1 million in losses the year before.

The FBI had earlier reported that the 1986 losses totaled more than $1 billion, but the agency now says that number was incorrect due to a error in entering the data on its computers. The correct 1986 total represented a 28% decline in losses from 1985. Losses had more than doubled between 1984 and 1985, buoyed by fraud-related red ink at Penn Square.

Fraud-related losses at commercial banks last year increased 44.2% to $690.7 million. At savings and loan associations, losses rose 49.1% to $154.5 million. Victimization of credit unions dropped sharply, however, with losses at those institutions falling by 36% to $15.4 million.

Bank Fraud Losses

During 1987

	No. of Cases	Losses ($Mil.)
Banks	9,316	$690.7
S&Ls	1,993	154.5
Credit Unions	498	15.4
Total	**11,807**	**$860.6**

Source: FBI statistics

The FBI completed 11,807 fraud and embezzlement investigations last year, up from 10,416 in 1986. About 79% of the cases involved banks; 16.9%, savings and loans; and 4.1%, credit unions. Investigations leading to convictions totaled 1,701, down from 1,957 in 1986.

The report also included fuel for regulators and others who argue that fraud and failures go hand in hand. Texas, which had the greatest number of bank failures last year, ranked No. 2 in terms of bank frauds committed. The FBI completed 1,069 fraud and embezzlement cases in the state last year, including 727 involving commercial banks and 284 at savings and loan associations.

California, the nation's most populous state, also had the greatest number of fraud and embezzlement cases. The FBI completed 2,277 investigations in the state, including 1,631 at banks, 585 at savings and loans, and 61 at credit unions.

The number of old-fashioned bank heists increased 7.3% last year to 6,577. Sixty-four percent took place at commercial banks, 32.6% at thrifts, and 3% at credit unions. There were 20 robberies of armored carriers.

A total of $42.6 million in cash, securities, and other property was seized. About $8.1 million was recovered.

While insider abuse was off signfificantly last year, the FBI found that losses due to fraud and embezzlement rose 42% to record highs.

Investigations have resulted in the identification of 4,867 people believed to be involved in the robberies. Of these, 2,940 were determined to be narcotics users and 832 had previous convictions for bank robbery, burglary, or larceny, the FBI said.

Bank robberies most often occurred on Fridays between 1 p.m. and 3 p.m. at a branch office located in the commercial district of a metropolitan area, the FBI data showed. The overwhelming majority of robberies took place at the teller window.

Heists at automated teller machines — a much publicized area of concern — occurred in just 68 cases investigated by the FBI, or about 1% of all robberies.

Guards continued to be the most effective deterrents against robberies. Only 312 robberies occurred with a guard present. In contrast, over 5,000 heists took place at institutions with alarm systems and surveillance cameras.

The report also covered injuries, deaths, and hostage taking during bank robberies. Acts of violence occurred during 191 of the robberies last year. Those resulted in 118 injuries, 14 deaths, and 47 people taken hostage.

Bank employees other than security guards were the most likely to be injured during a heist. Of the 118 injured last year, 50 were employees. Twelve customers were injured.

Perpetrators accounted for 12 of the 14 people killed, with most of the cases occurring outside the bank during the person's attempted escape. No customers died in robberies last year.

However, 9 customers and 31 employees other than guards were taken hostage, the FBI said. ■

GAO: $50 Billion May Be Needed to Bail Out Thrifts

THE General Accounting Office told Congress last Thursday that it has raised its estimate of how much it will cost the Federal Savings and Loan Insurance Corp. to resolve the financial crisis gripping the nation's thrift industry.

The FSLIC will need between $40 billion and $50 billion to close about 400 insolvent thrifts, according to Frederick D. Wolf, director of the GAO's accounting and financial management division. Mr. Wolf was appearing before the House Banking Committee, which is weighing a proposal to give the FSLIC the authority to issue notes explicitly guaranteed by the federal government.

Last December, the GAO — an investigative arm of Congress — put the projected cost at $26 billion to $36 billion.

Mr. Wolf said the FSLIC seriously underestimated the magnitude of its problems. It also underestimated the amount of capital it could attract from purchasers of troubled thrifts, he said.

GAO statistics show that the FSLIC has contributed 98.99% of the money in the six deals cut to revive insolvent Texas thrifts. Investors put up $105 million for institutions with $12.3 billion in assets. The FSLIC put up $10.3 billion in assistance in those deals, the GAO said.

Mr. Wolf recommended that Congress pass a resolution guaranteeing FSLIC notes as a stopgap measure. The FSLIC, however, should be limited to issuing a specific amount, he said, and the amount of guarantees on assets by the FSLIC also should be limited.

Speaking to reporters after his testimony, Mr. Wolf said the GAO believes that the notes already have the full faith and credit of the U.S. government. Federal Home Loan Bank Board Chairman M. Danny Wall originally asked Congress for the guarantees, but withdrew the request last week after the Reagan administration said the notes already have an implicit guarantee.

— Jim McTague